

Message Text

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ACTION EB-07

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P 161843Z JUN 77 ZDK

FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC PRIORITY 4087

C O N F I D E N T I A L SECTION 1 OF 2 MONTEVIDEO 2365

PLEASE PASS TO TREASURY

E.O. 11652: GDS

TAGS: ETRD, UY

SUBJ: REVIEW OF U.S. - GOU DISCUSSION OF PENDING COUNTER-
VAILING DUTIES CASES

REF: A) MONTEVIDEO A-003, B) MONTEVIDEO 230, C) MONTEVIDEO A-18

1. SUMMARY

THE JUNE 8-9 DISCUSSIONS BETWEEN TREASURY OFFICIALS AND THE GOU CONCERNING POSSIBLE COUNTERVAILING DUTY (CVD) ACTIONS WERE CARRIED OUT IN A USEFUL AND REASONABLY CORDIAL MANNER. THE GOU EMPHASIZED THE EXCHANGE COMPENSATING FACTORS UNDERLYING THEIR EXPORT INCENTIVE PROGRAM AND THE CURRENT POLICY TO PHASE THEM OUT. THE EMBASSY SEES POTENTIAL BROADER BILATERAL PROBLEMS IN THE INEVITABLE GOU TENDENCY TO ASSOCIATE CVD MOVES WITH HUMAN RIGHTS PRESSURES, TOGETHER WITH SOME UNDERCUTTING OF CIVILIAN PLANNERS WHO HAVE PRESSED FOR POLICIES ORIENTED TOWARD OPENING UP THE ECONOMY. END SUMMARY

2. TREASURY OFFICIALS RICHARD SELF AND VINCENT KANE HELD DISCUSSIONS IN MONTEVIDEO DURING JUNE 8-9 ON THE GOU EXPORT INCENTIVE PROGRAM AFFECTING THREE PENDING COUNTERVAILING DUTY CASES -- LEATHER
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WEARING APPARED) LEATHER HANDBAGS AND NON-RUBBER FOOTWEAR. EXPORTS OF THESE PRODUCTS TO THE U.S. IN 1976 REACHED NEARLY \$40 MILLION OUT OF URUGUAY'S GLOBAL EXPORT TOTAL OF \$546 MILLION. THREE WORKING SESSIONS WERE HELD WITH A SPECIALLY CONSTITUTED GOU COMMISSION LED BY JORGE CAUMONT OF THE OFFICE OF PLANNING (SEPLACODI) AND DANIEL FERRERRE OF THE MINISTRY OF FOREIGN AFFAIRS, WITH THE ASSISTANCE OF TECHNICIANS WORKING DIRECTLY IN EXPORT INCENTIVE PROGRAMS. (THE

COMMISSION WAS ESSENTIALLY A TECHNICAL GROUP WITHOUT "POLITICAL LEVEL PARTICIPATION.") CHARLES REYNOLDS AND DALE SLAGHT (EMBASSY OFFICERS) ASSISTED MESSRS. SELF AND KANE IN THE WORKING SESSIONS.

3. THE INITIAL APPROACH OF THE URUGUAYANS WAS FORMAL AS THEY PRESENTED A SUMMARY OF RECENT URUGUAYAN ECONOMIC HISTORY AND OUTLINED THE ECONOMIC RATIONALE FOR CURRENT PLANNING. BY THE FINAL WORKING SESSION ON JUNE 9TH, RELATIONS HAD BECOME EASIER AND MORE PERSONAL WHICH PERMITTED VISITING OFFICIALS TO GAIN A BETTER UNDERSTANDING OF THE SEVERAL ELEMENTS OF THE GOU EXPORT INCENTIVE PROGRAM. RECEPTION OF THE U.S. OFFICIALS IN A CALL ON MINISTER OF ECONOMY AND FINANCE VALENTIN ARISMENDI WAS CORDIAL BUT INDICATED HIS PERSONAL DISCOMFITURE AT THE U.S. POSSIBLY FORCING A TELESOPING OF THE PROGRAM ALREADY ADOPTED TO PHASE OUT EXPORT INCENTIVES.

4. THE EMBASSY WISHES TO THANK BOTH MESSRS. SELF AND KANE FOR EXCEPTIONALLY ABLE HANDLING OF THE MEETINGS WITH THE URUGUAYANS. THEY LISTENED PATIENTLY TO HOURS OF MATERIAL TANGENTIAL TO THEIR SPECIFIC FORMULAS FOR CVDS BUT OF GREAT IMPORTANCE IN OUR CONTINUED SUPPORT FOR THE TRADE LIBERALIZING TREND OF CURRENT GOU ECONOMIC POLICY. THE EMBASSY ALSO APPRECIATES THE LIMITED FLEXIBILITY ALLOWED BY THE TRADE ACT ON COUNTERVAILING DUTY CASES, BUT BELIEVES THOSE INVOLVED IN WASHINGTON SHOULD BE INTERESTED IN THE SETTING FOR TREASURY'S ULTIMATE DECISION AS DESCRIBED BELOW.

5. THE URUGUAYAN PRESENTATION BEGAN WITH A DESCRIPTION OF MORE THAN 30 YEARS OF PROTECTIONIST POLICIES, STAGNATION, AND SOCIAL-POLITICAL UNREST RESULTING IN THE TUPAMARO ERA. THE LIBERALIZING POLICIES WHICH BEGAN IN 1973-1974 (REF A) WERE OUTLINED AS THE GOVERNMENT'S ATTEMPT
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TO REMOVE EARLIER DISTORTIONS IN THE ECONOMY, TO DIVERSIFY SOURCES OF EXPORT INCOME AND TO BRING EXCHANGE RATES PROGRESSIVELY TOWARD A SINGLE EQUILIBRIUM LEVEL. EXPORT INCENTIVES WERE DESCRIBED AS AN INTEGRAL PART OF THE EFFORT, BUT THE TREASURY OFFICIALS WERE ASKED TO TAKE INTO ACCOUNT THE GOVERNMENT'S FOESIGHT IN IMPOSING THREE SUCCESSIVE REDUCTIONS IN THE LEVEL OF EXPORT REBATES (REINTEGROS) GRANTED, TOTALING 40 PER CENT AS OF JULY OF THIS YEAR. CAUMONT POINTED TO THE GOVERNMENT'S ANNOUNCED POLICY TO ACCELERATE THE REMOVAL OF REINTEGROS ANNOUNCED AT THE PARQUE HOTEL GOVERNMENT PLANNING CONFERENCE (REF A) OF LAST DECEMBER, WHICH IS BEING COMBINED WITH A LIBERALIZATION OF THE EXPORT REGIME (REFS B AND C). (A SIMPLIFIED IMPORT PROCEDURE AND TARIFF STRUCTURE, TOGETHER WITH A REALIGNMENT OF SURCHARGES, TAKE EFFECT NEXT MONTH.)

6. IN SUMMARY, CAUMONT EMPHASIZED TWO GENERAL POINTS IN LAYING OUT WHAT HE ARGUED SHOULD BE THE BACKGROUND FOR U.S. COUNTERVAILING

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TO SECSTATE WASHDC PRIORITY 4088

C O N F I D E N T I A L SECTION 2 OF 2 MONTEVIDEO 2365

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DUTY ANALYSIS. FIRST, THE DEMONSTRABLE LIBERALIZING TREND IN THE ECONOMY WITH ITS ALREADY PROJECTED PHASE-OUT OF REINTEGROS, MOVING HAND IN HAND WITH A LOWERING OF IMPORT BARRIERS, PLACES URUGUAYAN POLICY DIRECTLY IN LINE WITH THE U.S. PURPOSE IN REMOVING ARTIFICIAL DISTORTIONS IN INTERNATIONAL TRADE. HIS SECOND POINT WHICH RELATED DIRECTLY TO THE TREASURY CVD FORMULA WAS THAT THE REINTEGROS ONLY COMPENSATED FOR AN EXCHANGE RATE DEPRESSED BY THE EFFECT OF HIGH TARIFF BARRIERS AND THE CONSEQUENTIAL DAMPENING OF THE DEMAND FOR IMPORTS. THIS, HE ARGUED, SHOULD BE TAKEN INTO ACCOUNT, ESPECIALLY IN LIGHT OF THE GOU'S IMPORT REGIME ADJUSTMENTS TAKING EFFECT IN JULY WHICH WILL MAKE SOME IMPORTS MORE

ACCESSIBLE.(IN THIS CABLE, THE EMBASSY WILL NOT DETAIL DISCUSSION OF THE SPECIFIC TECHNICAL ITEMS WHICH ARE PART OF TREASURY'S ANALYSIS SINCE URUGUAYAN PREPARATIONS TO RESPOND TO THE TREASURY QUESTIONNAIRE HAD ONLY GEGUN AND THE FULL GOU RESPONSE WILL FOLLOW.)

7. COMMENT. THERE WILL BE SEVERAL SIDES TO THE REACTION IN URUGUAY IF THE U.S. ACTS TO IMPOSE COUNTERVAILING DUTIES. THE U.S. WILL BE SEEN AS DISRUPTING A SYSTEM PUT IN PLACE OVER THE
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YEARS UNDER BOTH INTERNATIONAL AGENCY AND U.S. GUIDANCE TO DIVERSIFY EXPORTS AND RATIONALLY INCREASE VALUE ADDED CONTENT OF EXPORTS, BUT UNDER AN EXPORT INCENTIVE PROGRAM WHICH, BY GOU PLANNING, IS ALREADY BEING ELIMINATED. THE TELESOPING OF THAT PERIOD IMPLIED IN U.S. COUNTERVAILING ACTION WILL WORK A MAJOR DISRUPTION IN A LEADING NEW EXPORT SECTOR WHICH IS BASED ON ELABORATION OF DOMESTIC RAW MATERIAL -- LEATHER -- AND NOT ARTIFICIALLY CREATED ON A SUBSIDY BASE.

8. THE RESULTANT DISRUPTION OF CURRENT LIBERALIZING POLICY WILL ALSO TEND TO UNDERCUT ITS CIVILIAN PLANNERS -- WITH WHOM THE U.S. HAS HAD A CLOSE WORKING RELATIONSHIP -- IN THE EYES OF MORE CONSERVATIVE CIVILIAN AND MILITARY ELEMENTS. THESE ARE MORE COMFORTABLE WITH TRADITIONAL BUT ECONOMICALLY DISASTROUS CONTROLS ON THE ECONOMY. THOSE SAME ELEMENTS AS WELL AS OTHERS WILL LINK CVD ACTIONS WITH ADDED HUMAN RIGHTS PRESSURES AND WILL REACT IN A MANNER DISRUPTPGE OF OUR LONG TERM RELATIONSHIP WITH URUGUAY.

9. ON THE OTHER HAND, THE MEMBASSY WILL EMPHASIZE THE POTENTIALLY HELPFUL EFFECTS OF THE GSP "INJURY" REQUIREMENT ON HALF (LEATHER CLOTHING) OF THE EXPORTS AFFECTED BY THE PETITIONS. NONETHELESS THE EMBASSY UNDERSTANDS THAT IF THE REINTEGRO SYSTEM TRANSLATES INTO A TREASURY FINDING OF A COUNTERVAILABLE SUBSIDY, DUTIES WOULD ACTUALLY BE ASSESSED NEXT JANUARY EVEN WHILE THE INJURY FINDING WOULD STILL BE PENDING. INASMUCH AS THESE CASES CARRY WITH THEM SERIOUS ECONOMIC CONSEQUENCES AND POLITICAL IMPLICATIONS FOR OUR BILATERAL RELATIONS, THE EMBASSY TRUSTS THAT IT WILL BE KEPT INFORMED OF DEVELOPMENTS IN WASHINGTON, AND PARTICULARLY OF EVEN TENTATIVE CONCLUSIONS ON THESE CASES BEFORE FINAL DECISIONS ARE REACHED.
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